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FARM CREDIT ADMINISTRATION  
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SALES POLICIES OF COOPERATIVE CANNERIES  
IN THE UNITED STATES

S. S. R. R.

*Preliminary Report*

By

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COOPERATIVE RESEARCH AND SERVICE DIVISION

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## SUMMARY

There are more than 100 cooperative canneries in the United States. In a number of areas they are assuming an important position in the canning industry. They comprise from 4 to 5 percent of the total number of canneries and handle about the same percentage of the total value of their products. Their products include almost everything from soup to nuts. This study is based on an analysis of 37 cooperative canneries, whose sales for the 1938-39 marketing season totaled 24.4 million dollars.

Markets for canned foods are composed of people who are able and willing to buy the products offered. Markets for canned foods are expanding as the importance in nutrition of protective foods that are rich in minerals and vitamins, such as canned fruits, vegetables, and juices becomes more generally recognized. Per capita consumption of canned vegetables has doubled and that of canned fruits is greater by nearly five times; the use of fruit juices has increased more than 15 times during the last 30 years.

Total domestic markets can be broken down into wholesale-grocery trading areas and grouped for convenience in selling through food brokers into broker trading areas. Although 184 wholesale-grocery trading areas in the United States have been mapped, few cooperative canneries, if any, use more than 100 brokers for national coverage. The broker trading area is the unit generally accepted for the setting of sales quotas.

The channels of distribution generally used by cooperative canneries include the food broker, the wholesale grocer or chain store, and the retail food store. Almost without exception cooperative canneries use brokers in making sales, although occasional sales are made direct to large buyers. The independent wholesale grocer is the principal customer of cooperative canneries. For the 1938-39 season more than 80 percent of the sales made were to wholesale grocers as compared with about 15 percent to corporate chains.

Conditions of supply and demand are the governing influences in determining opening prices with the more successful cooperative canneries. Cost of pack was regarded by many associations as a valuable pricing tool to be used not as the sole basis of establishing opening prices, but as a resistance to the lowering of such prices once they were established. Many cooperatives tended to "follow a leader," determining their opening prices by the opening prices of a dominant canner operating in their field.

In a steady market most canning cooperatives keep their prices in line with those of other responsible sellers. Cooperatives were

inclined to be bullish with respect to prices more often than their competitors; they were less likely to lead in price declines, even when conditions justified them.

Following customary practices of the canning industry, cooperatives generally accept future contracts from buyers. On a rising market buyers with future contracts usually take full delivery, while on a falling market buyers frequently find some way of avoiding acceptance of full delivery on future contracts. More than two-thirds of the cooperatives guarantee their prices against their own decline.

Selling by sample is the most usual practice followed by the associations, although about one-third of the associations make from 76 percent to 100 percent of their sales by grade. Forty percent of the associations made all their sales at prices quoted at point of shipment, as compared to 11 percent making all their sales on a delivered basis. The others made various proportions of their sales on an f.o.b. and a delivered basis.

Cooperative canneries, almost without exception, sell at least a portion of their packs under their own brands. They also sell goods of the same quality similarly priced under buyers' brands. However, branding practices generally permit the distribution in the same market of goods of identical quality under different brands at such variations in retail prices as distributors desire and are able to obtain. In the wholesale market, price differentials usually are directly related to quality differentials.

The trend is toward the use of controlled brands or brands that are owned and controlled by distributors. This trend appears to run counter to the interests of cooperatives, the members of which are the residual beneficiaries of any successful promotion of their own brands.

Approximately half of the associations surveyed were doing some advertising. For the year 1938 one association reported advertising expenditures in excess of \$100,000; two reported expenditures of from \$40,001 to \$50,000; and one expenditures of from \$30,001 to \$40,000. The others reported expenditures of less than \$10,000 each. Sales-promotion methods included point-of-purchase display, use of specialty men, demonstrators, and free deals.



# SALES POLICIES OF COOPERATIVE CANNERIES IN THE UNITED STATES

By

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NOTE: The author desires to express appreciation to officials of the cooperatives, who gave generously of their time in supplying data; to Anne L. Gessner, Cooperative Research and Service Division, for the statistical work; and to D. B. DeLoach and C. W. Peters, Oregon State College, who assisted in the field work in Oregon. Suggestions and assistance were also received from members of the Cooperative Research and Service Division staff, including K. B. Gardner, A. W. McKay, and N. Fogelberg.

## ECONOMIC BACKGROUND

Recent economic changes have made it desirable to undertake a critical appraisal of the sales policies of cooperative canneries in the United States, so as to indicate what modifications, if any, may be needed to bring about more satisfactory adjustments of the canneries to present conditions. These changes have profoundly affected the canneries. Pronounced among them is the growth in per capita consumption of canned fruits, vegetables, and juices, as the importance in nutrition of protective foods that are rich in minerals and vitamins has become more generally recognized. The per capita consumption of canned fruits increased from 3.1 pounds in 1909 to 14.8 pounds in 1937, or nearly 5 times; fruit juices from 0.4 pounds to 6.2 pounds between 1909 and 1939, or 15 times; and canned vegetables from 13 pounds to 25.6 pounds (fig. 1). The increase in per capita consumption of fruit juices during the last 6 years has been phenomenal.

Of equal or even greater importance in its effect upon the canneries is the increasing pressure of surpluses of many fresh fruits and vegetables. Canneries have been used to provide an outlet for these surplus commodities, thereby avoiding overloading the fresh fruit and vegetable markets and preventing or lessening the price declines. Other economic changes suggesting that such a study is timely include the introduction of new facilities for financing farmers' marketing and purchasing associations; of improved packing, transportation, and refrigeration facilities and methods that have stimulated the growth in the canned and frozen fruits and vegetables industry; and of supermarkets and self-service retail grocery outlets and the integration of the wholesale and retail functions of the grocery chains.

## SCOPE AND METHOD

The information upon which this study is based was obtained through personal interviews with officials and from the sales records of 37 cooperative canneries during the 1939-40 marketing season.<sup>1/</sup> The data thus obtained from cooperative canneries were supplemented by information given during personal interviews with brokers representing the cooperatives in the principal markets of the United States. The viewpoints of wholesale-grocer and chain-store buyers also were sought and aided greatly in the interpretation of material developed in the study.

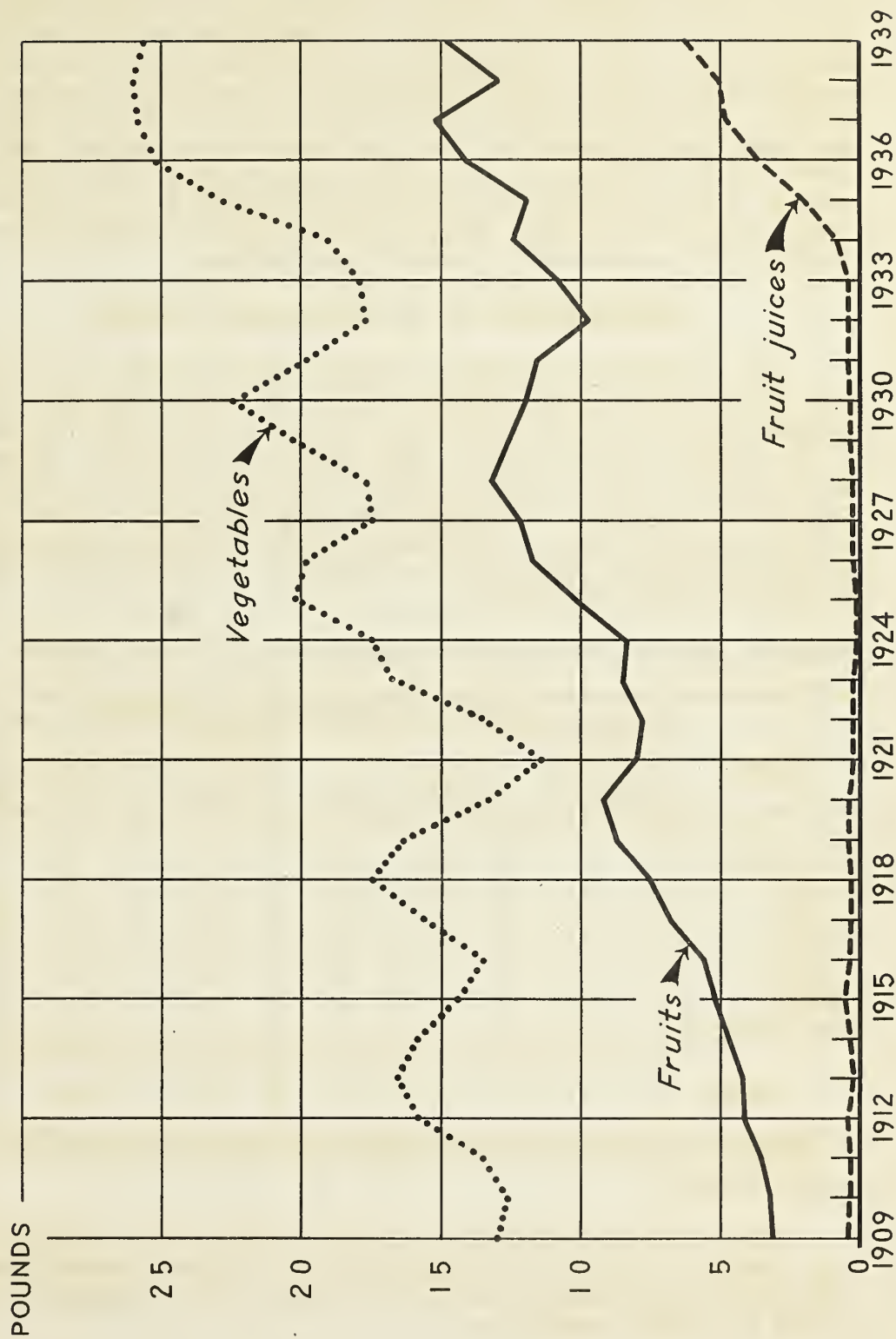
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<sup>1/</sup> A fuller discussion of the data obtained will appear in a forthcoming publication: Hensley, Harry C. "Sales and Distribution Policies of Cooperative Canneries in the United States." FCA Bull. 48 [In press].



FIGURE 1

# INCREASE OF PER CAPITA CONSUMPTION OF CANNED FRUITS, FRUIT JUICES, AND VEGETABLES IN THE UNITED STATES, 1909-39



See "Consumption of Agricultural Products," United States Department of Agriculture, 1941

This survey is based on a sample of approximately 30 percent of all the cooperative canneries operating in the United States at the time the records were taken. The canneries studied were selected largely with a view to studying the experiences of representative associations, giving due consideration to location, marketing experience, commodities packed, and availability of the data sought. So, from the standpoint of sales policies, it is believed that the study fairly represents the practices generally followed whether viewed from the standpoint of commodities handled or geographic areas of plant location. However, the sample is weighted more heavily with associations packing large volumes.

#### CHARACTERISTICS OF THE ASSOCIATIONS STUDIED

The cooperative canneries included in the study, as a rule, are comparatively young organizations. In 1940 at the close of the survey, 11 of them were less than 5 years of age (table 1), 14 from 5 to 10 years old, and only 3 were older than 20 years. Some, however, prior to their reorganization as cooperatives, had functioned as private canneries. Organizations with less than 5 years' operating experience must be considered in the formative stage and still new in the process of developing operating procedures and establishing customer relations.

Table 1. Age of 37 cooperative canning associations, 1939-40 season

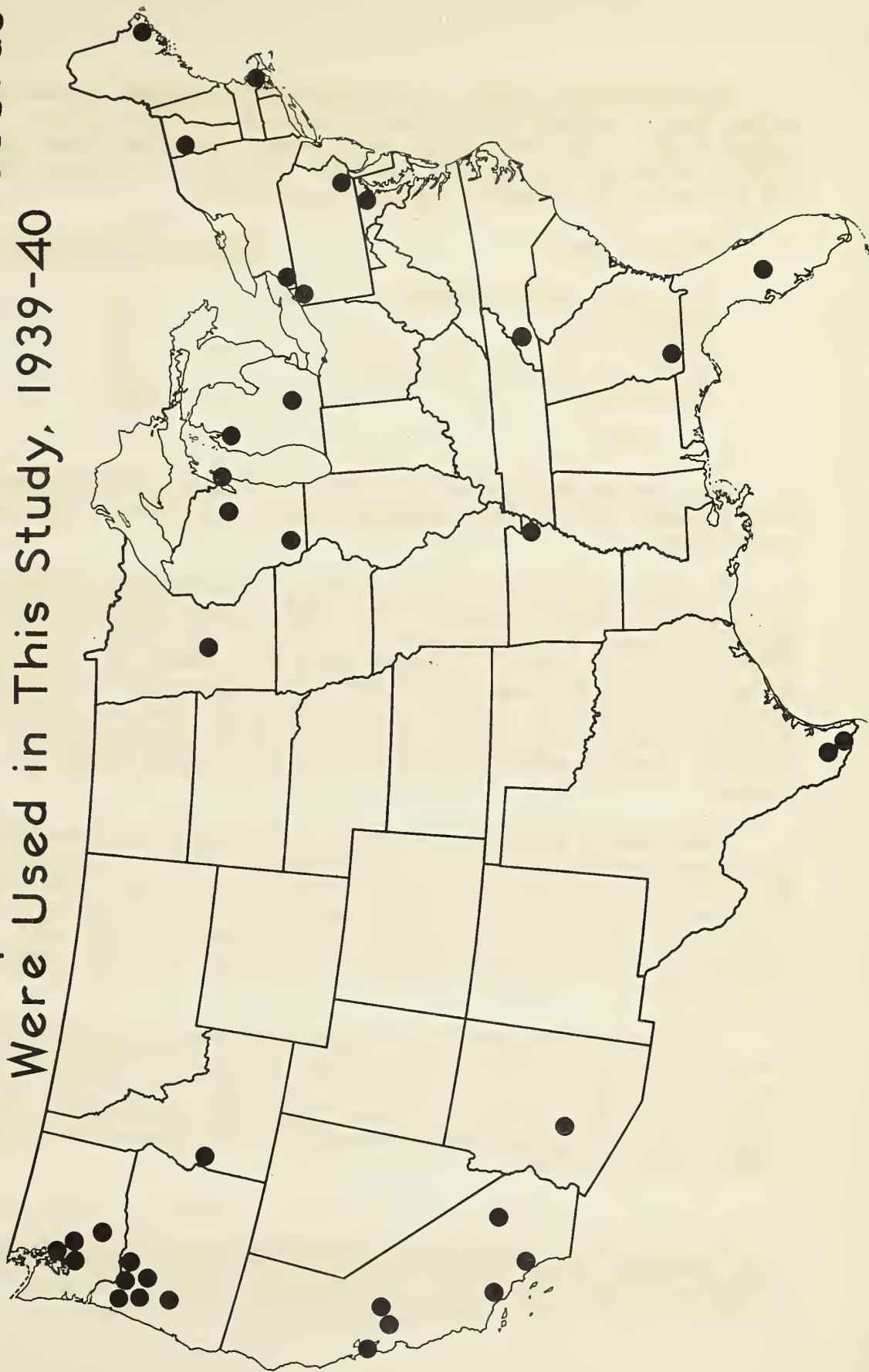
Years	Number of associations handling -					
	Dairy and poultry products	Vegetables	Fruits	Fruits and vegetables	Specialties	Total
Less than 5	-	3	1	1	6	11
5-10	1	4	1	3	5	14
11-15	2	-	1	1	1	5
16-20	1	-	2	1	-	4
21-25	-	-	1	-	-	1
26-30	-	-	-	-	-	0
More than 30	-	-	1	1	-	2
Total	4	7	7	7	12	37

Source: Survey made by the Cooperative Research and Service Division, 1939-40.

The canneries surveyed are located principally in States near the border of the United States (fig. 2). Almost without exception the larger associations are found in areas where transportation by water is readily available.

FIGURE 2

Location of Cooperative Canneries Whose Records  
Were Used in This Study, 1939-40



The commodities packed by the cooperatives include almost the entire line of commodities handled by private canneries in the United States. They principally are fruits, vegetables, dairy and poultry products, specialties, and nuts. The 37 associations studied classified by commodity types are as follows:

Commodity types	<u>Number of associations</u>
Dairy and poultry products .....	4
Vegetables .....	7
Fruits .....	7
Fruits and vegetables together .....	7
Specialties .....	<u>12</u>
Total .....	37

The associations marketing specialty products packed primarily such products as fruit and vegetable juices, mushrooms, sirup, and cranberries.

In regard to dollar volume of sales, 9 associations reported sales of more than a million dollars each, 17 each exceeded a half million dollars, 6 reported sales of a quarter to a half million dollars, and the other 14 reported sales of a quarter of a million dollars or less.<sup>2/</sup> Among the larger associations were two canning evaporated milk, four canning both fruits and vegetables, and three handling specialties. As previously indicated, the sample is weighted somewhat with associations handling a large volume of sales.

When grouped according to number of cases packed, there were 10 associations that packed a hundred thousand cases or less.<sup>2/</sup> But three associations packed more than a million cases each. Of the latter, one packed both fruits and vegetables, two packed specialties. Among the associations with the smaller packs were seven associations packing primarily vegetables and seven packing mostly fruits.

A classification according to average number of grower-members served by the 30 associations reporting showed that 12 associations were serving 250 or less, 10 from 251 to 1,000, 2 from 1,251 to 1,500, and 6 were serving more than 2,000. The associations generally serving the smaller number of members were those packing vegetables and specialties.

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<sup>2/</sup> Hensley, H. C., "Distribution of Canned Foods by Cooperative Canneries in the United States, Preliminary Report." FCA Misc. Rpt. 33, 49 pp., illus. [Mimeographed]. See tables 2 and 3.



The policies of these cooperative canneries are discussed under the topics sales planning by trading areas; distribution policies; pricing policies; selling policies; and brands, advertising, and sales promotion. These discussions are intended to be of assistance to officials of cooperative canneries and to their financing institutions.

### SALES PLANNING BY TRADING AREAS

An essential part of the sales manager's job is to get a clear view of the market for his products, so as to plan his sales program effectively. Markets are groups of people who are able and willing to buy the products offered. Markets can be broken down into units by trading areas, the patterns for which may be rather clearly differentiated. This was done as one phase of the project of which this study is a part for Ozark canned tomatoes.<sup>3/</sup> The Ozark region has packed about 7 percent of the total United States production of canned tomatoes in recent years. By a similar analysis the zones of competition and the forces active in other markets may be determined by any cooperative cannery.

#### Delineation of a Market

The normal market for Ozark canned tomatoes is in eight States west of the Mississippi, including Arkansas, Missouri, Kansas, Nebraska, Iowa, Oklahoma, Texas, and Louisiana. It is estimated that 90 percent or more of the Ozark production is distributed in sections of these States within a radius of 500 miles of Fayetteville, Arkansas (fig. 3). Since canned tomatoes are produced commercially in a great many areas in the United States, transportation costs naturally restrict the market for the products of any particular region.

Competition. The marginal area in which Ozark tomatoes encounter the keenest competition with tomatoes produced in other important canning areas probably lies somewhere within the oval on figure 3. This area is bounded roughly by the Missouri River on the north, the Mississippi River on the east, the Gulf of Mexico on the south, and

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<sup>3/</sup> This section is based on a market survey made by the author in 1940, in which reports of 485 wholesale-grocer and chain-store buyers of canned tomatoes located in 304 counties of 16 Central States were analyzed. The number of cases normally purchased annually by 445 buyers reporting was 4,737,120. In 1940, there were about 535 tomato canning factories in these 16 States, of which 169 were located in the Ozark region. The 16 Central States included in the mail survey were Alabama, Arkansas, Illinois, Indiana, Iowa, Kansas, Kentucky, Louisiana, Minnesota, Mississippi, Missouri, Nebraska, Oklahoma, Tennessee, Texas, and Wisconsin.



FIGURE 3

# WHOLESALE GROCERY TRADING AREAS FOR OZARK CANNED TOMATOES



the western boundary of the States of Nebraska, Kansas, Oklahoma, and Texas on the west. Its outlines are irregular and shift in response to changes in production or quality in competing areas as related to production or quality in the Ozark region, and to availability and cost of truck transportation and freight rates. Probably this zone is never exactly the same for any two seasons, and, therefore, cannot be positively identified.

When production in the Ozark region is heavy and that in Texas is light, the zone in which Ozark tomatoes can be marketed profitably bulges deep into Texas. On the other hand, when Texas production is heavy and Ozark production light, the zone recedes until most of Texas becomes a marginal area from the standpoint of Ozark canners. Similarly the marginal zone on other fronts advances or recedes depending upon comparative production in the competing areas and conditions of demand within the areas concerned.

Grades Purchased. The demand for canned tomatoes in the Central States is principally for those of standard grade, particularly in the areas of large lower-income groups. This includes much of the area within the oval in figure 3. In producing for this market, cooperatives naturally must keep in mind the quality grades that are most in demand. So the Ozark region<sup>4/</sup> produces tomatoes of standard grade almost exclusively.

About three-fourths of the canned tomatoes purchased by buyers reporting purchases in the Central States were of standard grade. About 19 percent were of extra-standard, and 7 percent of fancy grade (table 2). Only a fraction of 1 percent of sub-standard tomatoes were purchased.

Larger percentages of the purchases of wholesale grocers were in the higher grades than of the purchases of the chains. About 30 percent of the wholesale-grocer purchases were of the fancy and the extra-standard grades as compared with about 15 percent bought by the chains. The chains' purchases of standard-grade tomatoes averaged about 85 percent of their total purchases as compared with 70 percent of the wholesale grocers'.

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<sup>4/</sup> Ozark canned tomatoes are those packed in the Ozark region of northwestern Arkansas, southwestern Missouri, and northeastern Oklahoma.

Table 2. Wholesale purchases of canned tomatoes in the Central States classified by grade and buyer, 1939-40 season

Grade	Number of cases purchased annually by -			Percentage of cases purchased annually by-		
	Wholesale grocers	Chain stores	Both	Wholesale grocers	Chain stores	Both
Fancy	258,563	62,600	321,163	7.9	4.3	6.8
Extra standard	734,440	159,043	893,483	22.4	10.9	18.9
Standard	2,276,202	1,240,647	3,516,849	69.5	84.8	74.2
Sub-standard	5,625	-	5,625	.2	-	.1
Total	3,274,830	1,462,290	4,737,120	100.0	100.0	100.0

Source: Survey made by the Cooperative Research and Service Division, 1939-40.

Type of Buyer. A few large buyers in the Central States purchase the bulk of the canned tomatoes consumed in that area. Five percent, or 24 buyers, each of whose annual purchases normally exceeded 25,000 cases, made 50 percent of the total purchases. Of this number, 18 were wholesale-grocer buyers and 6 chain-store buyers. At the other extreme, 262 wholesale-grocer buyers and 21 chain-store buyers, who together make up 64 percent of the total buyers, made 16 percent of the purchases. More than half the buyers, 254 or 57 percent, were included in the group buying from 1,000 to 5,000 cases of canned tomatoes annually. This group, including 239 wholesale-grocer buyers and 15 chain-store buyers, made only 15.5 percent of the total purchases.

Chain-store buyers, as a rule, made larger annual purchases than wholesale-grocer buyers. On the average, each chain-store buyer bought about four times the amount purchased by each wholesale-grocer buyer.

Cooperative tomato canneries operating in the Central States can, it appears from the foregoing analysis, by carefully selecting their customers, reduce the number of their customers and their selling costs without reducing their volume of sales.

#### Wholesale-Grocery Trading Areas

While about two-thirds of the Ozark canned tomatoes move through wholesale grocers who supply the independent retail grocery stores, an even larger percentage of the sales of cooperative canneries move through these channels. Since the wholesale grocer is the principal customer of cooperative canneries in the United States (page 15) it is important to examine the characteristics of wholesale-grocery



trading areas. With this purpose in view, figure 3 was prepared. This figure shows the location and the boundaries of the wholesale-grocery trading areas in the 16 Central States.<sup>5/</sup>

In 1940 there were approximately 2,200 wholesale grocers of all classifications in the 16 States comprising the principal market for Ozark canned tomatoes. This market, which is open wholly or partially to Ozark tomato canneries, had a population of 49,258,374 persons in 1930. In 1935 it had a total of 1,753 full-line, full-service, and limited function wholesale grocery establishments with net sales of \$849,071,000; retail food stores numbered 175,669 with net sales of \$2,511,720,000. There were also 35,393 general stores selling food, whose net sales were \$548,540,000.

The total market consists of a large number of lesser trading areas, each of which is shown in figure 3. Such trading areas may be represented by the one centering at Fort Smith, Arkansas (fig. 3, No. 132). This trading area, enclosed in the small circle, lies in two States, Arkansas and Oklahoma. It covers an area of 12 counties, including Adair, Sequoyah, and Le Flore, in Oklahoma; and Washington, Madison, Johnson, Franklin, Crawford, Logan, Sebastian, Scott, and Polk in Arkansas. The population of this area in 1930 was 292,542 persons. In 1935, a total of 15 full-line, full-service, and limited function wholesale grocery establishments had net sales of \$6,402,000. The 822 retail food stores had net sales for 1935 of \$7,450,000. In addition, 525 general stores selling food had net sales of \$7,254,000.

Since a high percentage of the deliveries of wholesale grocers are made by truck, trading areas are determined to a large degree by the character and extent of the highway system as related to the distribution of population and buying power. It is from the centers of these trading areas that distribution of canned tomatoes largely is made to the various retail grocery outlets. Although trading areas are not restricted by county or State lines, from a practical standpoint, county lines have been followed in constructing the area boundaries.

But such wholesale-grocery trading areas are not fixed, definite territories that never change. Rather, they are areas that shade into other areas, and that frequently expand or contract in response to changing conditions. Changes in population, buying power, methods of transportation, and marketing practices, are numbered among such conditions.

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<sup>5/</sup> Moulton, Elma S. "Atlas of Wholesale Grocery Trading Area." U. S. Department of Commerce. Market Research Series No. 19. 269 pp., illus. 1938.

## Sales Territories, Quotas, and Broker Trading Areas

In the foregoing discussion of the market for Ozark canned tomatoes, the market was shown to comprise an area of some 16 States, in which about 90 percent of the distribution was in 8 States. The population was close to 50 million. Sales were made to approximately 2,200 wholesale grocers and approximately 150 chain-store groups. The net sales of 175,669 retail food stores were approximately 2.5 billion dollars.

Most cooperative canneries sell to wholesale-grocer and chain-store buyers through brokers. The problem of selling approximately 2,350 potential customers confronts each association in the Ozark region that is desirous of seeking a broad market for its products. For most associations, this problem is attacked by carefully selecting a broker in each important area in which sales are to be made and giving this broker an exclusive area in which to represent the association and to sell its products. The job of the broker under such arrangements is to sell association products to all desirable, potential customers within his trading area.

The broker trading areas may coincide with wholesale-grocery trading areas although usually they do not. With most associations, broker trading areas frequently include two or more wholesale-grocery trading areas. For national coverage, few cooperative canneries, if any, use more than 100 brokers, while 184 wholesale-grocery trading areas in the United States have been mapped.

Figure 4 shows the sales divisions and broker trading areas for one association having national distribution of its products. For the 1937-38 season, this association was represented in 91 markets by brokers, each of whom was given exclusive sales rights within an agreed broker trading area as outlined in the figure. For purposes of sales supervision, the United States was divided into four divisions, namely, eastern, southern, midwestern, and western.

Sales Quotas. A few of the cooperatives whose sales methods were examined during this study were making some use of sales quotas in the planning of sales. The organizations setting quotas were getting national distribution of their products. The development of sales quotas is a logical extension of sales planning for the sales quota may represent a sales task set for the organization as a whole, for a sales territory, or for a salesman. Since brokers are largely used by the cooperatives in selling and each broker generally is given an exclusive area in which he represents the association, the broker trading area may be accepted as the unit for the setting of sales quotas.



FIGURE 4

# Sales Divisions and Broker Trading Areas, 1937-38



The sales quota, as generally used in sales management, is an estimate of the quantity of a commodity an individual firm expects to sell in a market within a given period of time. It differs from a sales potential in that a potential is an estimate of the possible sales of a commodity in a given area or market within a specific period. For various reasons, a sales manager may find it desirable to establish for his firm a sales quota for a market at a different level than the sales potential might indicate. The strength of competition in a given market, for example, might be such as to cause a sales manager voluntarily to reduce the sales quota for his firm in that market and thereby allow competitors a larger share of the market. This might be the result of quality or grade requirements for a market being such as to give competitors an advantage, and, therefore, cause a sales manager largely to withdraw from a market.

Sales quotas are established primarily to set up a definite task against which actual performance may be measured. Quotas serve as a goal of achievement as well as a standard of performance. They may be used as a guide in the allocation of advertising expenditures and as a basis for judging the efficiency of sales and advertising efforts.

Quotas may be based upon past performance as reflected in the record of sales, when these records are available; and should be considered in the light of market possibilities and probabilities. Their value as a sales incentive depends largely upon the salesman's belief that the quota set is fair and reasonably attainable.

Setting Quotas. Methods of setting sales quotas vary widely. One cooperative association marketing a specialty product sets quotas for its brokers largely on the basis of its sales experience in a principal sales territory in which its products have been on sale since the organization was founded many years ago. For this association, brokers' annual quotas were based, at the time of the survey, on the number of families per broker trading area at the rate of two cans per white family. The consumption per white family was based on the sales experience of the association in 1937 in a principal sales territory.

While it is not within the scope of this study to discuss in detail the methods of setting sales quotas, since they are varied and often intricate, it is desired to point out some of the sources of available data sales managers have to work with, and to suggest a few of the factors to be considered in setting quotas.

Basic county data suitable for use in the determination of sales quotas are becoming available largely as a result of the analysis of recent census data. Per capita distribution of each product is affected by regional factors and conditions. Sales variations by broker trading areas or other sales territories are due principally to the following: (1) Population characteristics such as race, nationality, age, buying power, living conditions, and food habits, (2) merchandising and competitive conditions, (3) sales and advertising effort, and (4) price of the product as related to the responsiveness of regional demand.<sup>6/</sup>

Broker Trading Areas. A representative broker trading area of one association is shown in figure 5. The Cincinnati trading area in which the broker has been given exclusive rights to represent the association consists of 22 counties located in 3 States. The Cincinnati broker trading area is typical of the 91 broker trading areas in the United States used by one association. This association carefully selected its brokers, gave them close supervision, and received good national distribution of its products.

Sales quotas for this association were determined annually for each broker trading area based on its own sales experience and data similar to those in table 3. It is possible, by using source material cited in the table supplemented by the association's sales experience, to establish sales quotas by broker trading areas, which will be far less inaccurate than the pure guesses upon which so many sales managers have to work.

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<sup>6/</sup> Cowan, Donald R. G., "Sales Analysis From the Management Standpoint." Univ. of Chicago Press. 209 pp., illus. 1938.

Figure 5

CINCINNATI - A TYPICAL BROKER TRADING AREA





Table 3. Population, retail food store sales, and buying income, by counties, for the Cincinnati broker trading area

Counties	Population, 1930 <sup>1/</sup>		Retail food stores, 1935 <sup>1/</sup>			Effective buying income <sup>2/</sup>	
	Total	Percent- age of U. S.	Number	Percent- age of U. S.	Net sales		Percentage of U. S. 1936
					\$1,000	Percentage of U. S.	
U. S. Total	122,775,046	100	532,010	100	\$8,362,425	100	100
Ohio							
Adams	20,381	.0166	59	.011	700	.008	.0082
Brown	20,148	.0164	71	.013	608	.007	.0095
Butler	114,084	.0929	620	.117	10,006	.120	.1084
Clermont	29,786	.0243	144	.027	1,613	.019	.0185
Clinton	21,547	.0176	99	.019	1,231	.015	.0184
Greene	33,259	.0263	127	.024	2,081	.025	.0273
Hamilton	589,356	.4800	3,147	.592	57,533	.688	.6991
Highland	25,416	.0207	94	.018	1,429	.017	.0168
Montgomery	273,481	.2227	1,550	.291	23,081	.276	.2976
Warren	27,348	.0223	100	.019	1,626	.020	.0193
Indiana							
Dearborn	21,056	.0172	86	.016	1,518	.018	.0167
Franklin	14,498	.0118	41	.008	302	.004	.0064
Ohio	3,747	.0031	12	.002	171	.002	.0020
Ripley	18,078	.0147	45	.008	686	.008	.0104
Kentucky							
Boone	9,595	.0078	32	.006	161	.002	.0038
Bracken	9,616	.0078	29	.005	203	.003	.0038
Campbell	73,391	.0598	455	.086	5,526	.066	.0544
Gallatin	4,437	.0036	7	.001	39	-	.0017
Kenton	93,534	.0762	634	.119	6,964	.083	.0674
Pendleton	10,876	.0089	28	.005	212	.003	.0035
Grant	9,876	.0080	26	.005	242	.003	.0046
Robertson	3,344	.0027	6	.001	41	-	.0007
Area total	1,426,854	1.1614	7,412	1.393	115,973	1.387	1.3985

<sup>1/</sup> U. S. Department of Commerce, Consumer Market Data Handbook, 1939 Ed., 464 pp.

<sup>2/</sup> Survey of Buying Power, Sales Management, April 10, 1937.



## DISTRIBUTION POLICIES

The usual distribution channels of cooperative canneries include the food broker, the wholesale grocer and the chain-store warehouse, and the retail food store (fig. 6). The food broker, as a rule, does not have possession or absolute control of the products, rather he obtains and transmits orders for the canners at prices and on terms specified by his principals. For this service the broker usually receives an agreed percentage of sales or brokerage, generally of from 2 to 5 percent of sales. The brokerage rates for fruits and specialties are usually higher than those for vegetables. Frequently the rate is a matter for negotiation between canner and broker. The larger canners with more desirable lines of products frequently pay a lower rate of brokerage.

Sales to wholesale-grocer and chain-store buyers are usually made through brokers, though they occasionally are made direct. Wholesale grocers render a number of important services including assembly, storage, and credit. From the standpoint of assembly and storage of canned foods, chain stores resemble wholesale grocers.

Although the canner usually does not sell direct to the retail food stores, he is concerned with all their operations that influence the consumption and the demand for his products. These include the retailers' prices, displays, and sales efforts behind the products.

### Selling Through Brokers

Almost without exception, cooperative canneries use brokers for sales. The single exception among the 37 examined was a cooperative producing a specialty. In this instance, nearby large markets took practically all the cooperative's output. Even this association previously had used brokers to introduce the product and to establish ready outlets for its sales. Brokers were used mostly for reasons of economy, market coverage, and convenience.

Broker Selection and Supervision. Brokers are selected in various ways, including personal interviews and recommendations of the trade (table 4). About one-third of the cooperatives had personal interviews with those they were considering for appointment. Trade recommendations chiefly of larger customers of the cooperatives often influenced the selections. While it is desirable that the cooperatives know what customers think of brokers under consideration, precaution needs to be taken against biased recommendations that may later lead to undue favoritism of the customers recommending the appointments.

Table 4. Methods used by 33 cooperative canneries in selecting brokers, 1939-40 season

Method	Associations handling -						Percent- age of total
	Dairy and poultry products	Vege- tables	Fruits	Fruits and vege- tables	Spe- cial- ties	Total	
	Number	Number	Number	Number	Number	Number	Percent
Personal inter- views	1	3	1	2	4	11	33.3
Trade recommen- dations	2	1	-	1	2	6	18.2
Personal inter- views and trade recommendations	-	-	1	1	5	7	21.2
Solicitations and trade recommen- dations	-	-	-	1	-	1	3.0
Other	-	2	4	2	-	8	24.3
Total	3	6	6	7	11	33	100.0

Source: Survey made by the Cooperative Research and Service Division, 1939-40.

Brokers meet with their principals at infrequent intervals throughout the year. In approximate figures, 20 percent of the associations meet their brokers annually, 23 percent semiannually, 20 percent quarterly, and 3 percent monthly. The others meet their brokers at less frequent intervals or have their contacts through their sales agents. The dairy, poultry, and specialty cooperative canneries made such personal contacts more frequently than the others.

The usual place of meeting is at the broker's office or the food conventions. Many associations make it a point to see their brokers at the annual meetings of the National Canners Association. A few associations arrange visits for their brokers to the plants during operating seasons to give them a better opportunity to become acquainted with factory operations and the general character and quality of the pack. Other associations show moving pictures of their packing operations to brokers and buyers in the brokers' offices or at the annual food conventions. Some of the dried-fruit and nut cooperatives for many years have made an effort to develop mutual respect and confidence through annual dinners for their brokers at the food conventions, which lays the basis for increasing sales.

FIGURE 6

# USUAL CHANNELS OF DISTRIBUTION FOR CANNED FOODS



CANNERIES



FOOD BROKERS



WHOLESALE GROCER AND CHAIN STORE WAREHOUSES



RETAIL FOOD STORES



Field brokers are used by all except the dairy and poultry groups. About one-fourth of the cooperatives use field brokers regularly, about 14 percent make infrequent use of them. Such a broker usually operates in the field as the economic link between a number of small canners and wholesale buyers. He may, and generally does, employ the services of general food brokers in the central markets to make sales to wholesale buyers. Usually the brokerage charged for such sales is divided equally between the field broker and the broker at the central market. Occasionally the field broker may even finance a small canner.

### Wholesale Channels

The independent wholesale grocer is the principal customer of cooperative canneries. More than 80 percent of the sales by cooperatives for the 1938-39 season were made to wholesale grocers; of these less than 7 percent were made through the buying offices of voluntary or cooperative chains. About 15 percent of sales during that season went to corporate chains.

Since it appears that corporate chains made about 37 percent of the total sales of retail grocery and combination stores in 1938-39, and that as a group the cooperative canneries surveyed made only 15 percent of their total sales to corporate chains, it is evident that the cooperatives were not selling to the chains their proportionate share of the chains' requirements.

The percentage of sales made by individual canneries to corporate chains varies widely. For example, percentages of sales to corporate chains ranged from zero to 63. Four of the associations whose records were examined made no sales to corporate chains, 19 reported sales of 30 percent or less, only 4 cooperatives reported sales of more than 30 percent.

An examination of sales made by 23 cooperatives for the 1938-39 season to the largest of the corporate chains showed that 8 cooperatives made no sales to this chain, 10 made up to 10 percent of their total sales to the chain, 2 associations from 11 to 20 percent, 2 from 21 to 30 percent, and 1 from 31 to 40 percent.

## PRICING POLICIES

### Opening Prices

Conditions of supply and demand are the governing influences by which the more successful cooperative cannery associations determine opening prices (table 5). Generally the objectives are to ascertain at what price or prices the prospective total supply can be sold during the marketing year. While the procedure varies between associations; with the beginning of each new crop year

preparatory to the announcement of opening prices for the new pack, the management through its field service and grower contacts, supplemented by information obtained from Federal and State crop reports and trade association releases, arrives at an estimate of the probable total pack and supply of the principal lines it packs. In this estimate, consideration is given to year-end carry-over, which is added to the prospective pack to give the total supply available for the marketing season.

Table 5. Determination of opening prices of 35 cooperative canneries, 1938-39 season

Method of determination	Association using method	
	Number	Percent
Cost of pack	5	14.3
Supply and demand conditions	11	31.5
Follow a leader	6	17.1
Cost of pack and general market conditions	6	17.1
Other	7	20.0
Total	35	100.0

Source: Survey made by the Cooperative Research and Service Division, 1939-40.

Associations financing through the banks for cooperatives usually prepare budgets that are based on the cost of pack of the previous season with due allowances for changes in costs that can be forecast. When opening prices are announced prior to completion of pack and are based primarily upon such costs of pack, such costs must necessarily be estimated costs. Many associations do not have adequate cost figures; and therefore cannot accurately base their opening prices on costs. They can, however, and frequently do base their opening prices primarily upon cost figures as accurate as they can estimate. Some five associations, or 14 percent of the total, based their opening prices primarily on cost of pack.

Some 17 associations, or about 50 percent of the total, in addition to using cost as a factor in price determination, based their opening prices primarily upon a consideration of the supply of and demand for the products they pack. In arriving at judgments on the conditions of demand, they relied upon current prices, current and prospective business conditions, and ideas of food brokers and large buyers. For commodities whose packing season is long, perhaps with several areas successively entering the packing stage, the free interchange of price, pack, and market information affords the basis for determining opening prices.



Associations relying too much on cost of pack as a basis for opening prices, might find that competitors with lower costs could underquote them; and if buyers were unwilling to take all the output at prices based on cost, sellers adhering to cost-of-pack prices would have a carry-over at the end of the season. Used with common sense, not as the basis of price but as a resistance to the lowering of price, cost of pack is a valuable pricing tool.

Follow a Leader. In the case of six associations opening prices were determined for them by the opening prices of a dominant canner operating in their field. Thus, they merely awaited the announcement of opening prices by the leader and then followed with their commodity lines similarly priced. When there is such a leader with an experienced management and adequate cost figures, some reliance can be placed upon his ability to judge the market and to arrive at a fair basis for opening prices in the light of supply and demand information. However, no cooperative can afford blindly to follow a leader without independently appraising market conditions to check the soundness of the opening prices suggested by him.

Associations announcing opening prices identical with or at a fixed differential from some competitor handling a major portion of the pack must keep their costs in line with their competitors if they are to make comparable returns to their members. Under such circumstances, and with some commodities, some canners are generally recognized by their smaller competitors as entitled, because of their size, to take leadership in naming opening prices with the expectation that others will fall in line. Cooperatives that follow a leader need to beware of price traps set for them by unscrupulous competitors. Such leaders may purposely set prices too low and thus, through superior financial resources, force a reduction in the number of firms competing in the field.

#### Relation of Association Prices to Those of Other Sellers

In a Steady Market. Most canning cooperatives in a steady market follow a policy of keeping their prices in line with those of other responsible sellers (table 6). Approximately two-thirds of the associations stated that their pricing policies were intended to be strictly competitive for like grade and quality. Under such policies, the associations promptly change their prices to meet those of responsible competitors when price changes have been verified by checks made through brokers, buyers, and other competent trade sources.

Table 6. Pricing policy under various market conditions, 1938-39 season

Usual price policy	Number of associations indicating usual plan of pricing in a -					
	Steady market		Falling market		Rising market	
	Number	Percent	Number	Percent	Number	Percent
At prevailing market price	21	63.6	16	51.6	19	67.8
At the market plus	9	27.3	6	19.4	-	-
At the market minus	1	3.0	3	9.6	8	28.6
Other	2	6.1	6	19.4	1	3.6
Total	33	100.0	31	100.0	28	100.0

Source: Survey made by the Cooperative Research and Service Division, 1939-40.

About one-fourth of the associations stated that it was their policy to maintain prices higher than competitors; less than 10 percent followed a policy of quoting prices lower than competitors or used some other basis. Various combinations of pricing policies were followed depending upon market conditions, association stocks of items priced, and general supply-and-demand conditions prevailing in the markets in which they were selling. For example, an association with a short supply of an item might price that item somewhat higher than would other sellers. This would tend to restrict its movement and still enable the association to keep on the market with a complete line of its products.

Associations following a policy of pricing lower than those of other sellers no doubt justified this practice on the ground of bringing about a more rapid movement of stocks, thereby effecting savings in storing, financing, and other costs.

In a Falling Market. In a falling market or in a market in which conditions appeared to favor a decline from opening prices, cooperatives were inclined somewhat more toward a policy of pricing in such a way as to effect free movement of their goods than in a steady market. Under such conditions about half the cooperatives indicated their usual policy was to sell at the prevailing market price, about one-fifth planned to sell at the market plus, and one-tenth at the market minus.

When conditions fully justify a decline in price, obviously those firms that first ascertain this fact and act on it either by applying extra sales and promotional effort or by a reduction in



price, or both, stand to gain by speeding up their sales over other sellers, with a consequent reduction in carrying costs and a higher average price for stocks sold. In a falling market, the first firm to quote lower prices has a sales advantage over those that later decide to meet the lower prices. Cooperatives frequently have stated that they find it difficult and often impracticable to lead in justified price reductions because of (a) member attitudes, and (b) competitor attitudes.

Members and frequently directors are found to be bullish with respect to prices. Their influence generally is directed toward maintaining or increasing prices. Under such circumstances a sales manager, even though reinforced with information on supply-and-demand conditions fully justifying lower prices, may be restrained by his directors from taking the lead in price reductions and thereby may permit his competitors to assume the initiative and thus to get the principal benefits.

Again, a manager may be restrained from initiating justified price cuts because of fear that his competitors will criticize the reduction as unjustified and thus create dissatisfaction among the members of the association.

The manager of a private corporation is subject to no such pressure from growers and, therefore, is more likely to make justified price cuts as soon as the conditions governing such situations are recognized. In a private corporation, management is concerned only with marketing the pack at prices conditions of supply and demand justify. He is accountable only to the directors and stockholders, who generally are not producers of the raw products and therefore not concerned with the maintenance of price levels for raw materials to the same extent as growers. If such be the case, and there seems to be much to support that position, there is an element of weakness in the pricing policies of cooperative canneries that management should recognize and guard against. This weakness, if it exists, can be overcome by a program of price and market information and education directed toward the members and directors. To carry out such a program successfully requires strong, capable management, well grounded in sound pricing policies.

In a Rising Market. Cooperatives tend to follow the policy of selling at the prevailing market prices in a rising market. A slightly higher percentage plan to sell at the prevailing market price in a rising market than in the other types of markets. However there is no indication that managements plan to lead in raising prices or to sell at the market plus. On the contrary, there is some suggestion that a few cooperatives tend to underprice the market somewhat by selling at the market minus. Such a course,

if actually followed, would suggest that cooperatives tend to "follow the leader" rather than arrive at independent judgments with respect to prices.

Reasons given by cooperatives for following the pricing policies specified, usually were those designed to increase returns to growers. Managers generally desired to price their products in such a way as to keep down carrying charges and increase and hasten returns to growers. There was an evident desire to keep from spoiling the market for which they might be blamed by their competitors. The desirability of maintaining product prestige was recognized, and price policies designed to accomplish that end were regarded as desirable.

#### Discounts and Allowances

Cash discounts were given by all associations reporting (table 7). These discounts ranged from 1 percent to 2 percent, the latter prevailing for most associations. The cash discount is a deduction allowed by the association on condition that payment be made within a specified time. It is considered an inducement for prompt payment. The usual terms were 2 percent, 10 days, net 30 days. The cooperatives have followed practices in regard to cash discounts that generally prevail in the canning industry.

Table 7. Discounts and allowances made by cooperative canneries, 1938-39 season

Allowance	Number of associations making allowance for -			
	Cash	Quantity	Swell	Label
0.25 percent	-	-	12	-
0.50 percent	-	-	14	-
1.00 percent	3	-	-	-
1.50 percent	12	-	-	-
2.00 percent	22	-	-	-
Trade	-	-	-	10
Specified	-	12	-	23
Other	-	-	7	1
None	-	25	4	3
Total	37	37	37	37

Source: Survey made by the Cooperative Research and Service Division, 1939-40.



About one-third of the associations made quantity discounts specified in accordance with the size of their customers' purchases. One association, for example, allowed quantity discounts of 3 percent on any carload lots taken at one time, and 2 percent on lots of 200 cases so taken. The justification for quantity discounts is based on the lower cost of handling large orders. In some instances, quantity discounts have enabled the canner to yield to the pressure of large buyers for lower prices without antagonizing purchasers of smaller quantities.

Swell allowances of 0.25 percent to 0.50 percent in accordance with recommendations of the National Canners Association and distributors' organizations are generally granted by cooperatives. For the staple vegetables, such as corn, peas, beans, pumpkin, squash, spinach, beets, tomatoes, and others, an allowance of 0.25 percent is made. For most canned fruits and some vegetables an allowance of 0.50 percent is made. These percentages are in lieu of normal swells. Where abnormal swells develop, which are defined as being more than double the amount allowed on a percentage basis on contract, adjustment is made by negotiation, generally on the basis of each unit shipment rather than against the entire contract.

Label or brand allowances by cooperatives generally follow the industry custom, although such allowances usually are specified in the memorandum of sale. Most cooperatives accept orders from buyers for goods either under buyer's brands or packer's brands at no differential in price. Where a buyer's brand is specified, the allowance usually is stated in the sales agreement. The brand or label allowance varies with the size and the type of label used and, roughly, is designed to cover costs. Associations that sell goods only under their own brands do not, of course, make label allowances. Only 3 associations of the 37 reporting made no label allowances.

When an association accepts an order for shipment of goods under buyer's label, ordinarily the labels are supplied by the buyer and the labeling is done by the association prior to shipment. There is merely a substitution of one set of labels for another. Frequently a cooperative may carry stocks of labels of its regular customers for use as directed, replenishing these stocks as needed from the label manufacturers, upon order of its customers.

### Futures

Following customary practice in the canning industry, cooperatives generally accept future contracts from buyers. As used in this study, future contracts are orders accepted for goods to

be canned or otherwise prepared for shipment at a later date. Future contracts are placed by buyers who wish to be protected against possible shortages in the supply of certain merchandise or against price advances. Future contracts are of value to canners who wish to hedge part of their packs against price changes or who wish to sell some of their output prior to pack as an aid in financing plant operations.

Future contracts have been used by cooperatives as well as private canneries as an understanding between buyer and seller that, other things remaining constant, the buyer will accept and pay for and the canner will pack and ship the quantity and the quality of goods stated in the contract at the price or prices specified.

One association reported making all its sales on future contracts. About one-third of the cooperatives were selling on future contracts from 26 percent to 50 percent of their total sales (table 8), about one-fourth from 1 percent to 25 percent, and five associations reported no use made of future contracts.

For several reasons, canners fail to make complete deliveries on future contracts. About 15 percent of the cooperatives reported deliveries on future contracts of less than 75 percent of the amount contracted. Twenty-six associations, or about 84 percent of them all, made deliveries on future contracts of from 75 percent to 100 percent of the amount contracted.

On a rising market buyers usually took full deliveries. All too frequently, however, when prices had weakened after acceptance of the contract of sale, buyers declined to give shipping instructions to sellers or, if shipment had been made, they insisted that the goods were not fully up to specifications and either refused to accept delivery or insisted on price adjustments. Although a properly drawn future contract is undoubtedly legally enforceable, the sellers generally were reluctant to force delivery, when buyers hesitated to give shipping instructions, lest they lose a customer. Under such circumstances, future contracts have been little more than expressions of an "intention to purchase."

Table 8. Percentage of dollar sales made on future contracts by 34 cooperative canning associations, 1938-39 season

Percentage of dollar sales	Associations handling -						Percentage of all associations
	Dairy and poultry	Vegetables	Fruits	Fruits and vegetables	Specialties	Total	
	<u>Number</u>	<u>Number</u>	<u>Number</u>	<u>Number</u>	<u>Number</u>	<u>Number</u>	<u>Percent</u>
None	2	1	-	-	2	5	14.7
1-25	2	4	1	-	3	10	29.4
26-50	-	2	4	4	3	13	38.3
51-75	-	-	1	3	1	5	14.7
76-100	-	-	1	-	-	1	2.9
Total	4	7	7	7	9	34	100.0

Source: Survey made by the Cooperative Research and Service Division, 1939-40

Perhaps, with more general adoption of Federal inspection and use of grading certificates by canners, the performance on future contracts may be materially improved.

Some 40 percent of the cooperatives use a variation of future contracts commonly known as S. A. P. contracts. These future sale contracts are entered into between buyer and seller subject to approval by the buyer of prices when named by the seller. Under such contracts, buyers in accordance with the terms of the contract may confirm their orders at the prices named by the seller, with such confirmation usually subject to acceptance by the seller on or before a specified date. If the prices named by the seller are not acceptable to the buyer, the buyer does not confirm the order and the contract becomes void. Until the price is named and the order confirmed, the contract is in the nature of an option the buyer holds.

#### Guarantees Against Price Decline

More than two-thirds of the cooperatives customarily guarantee their prices against their own decline. The usual time period against price decline is until date of shipment. This practice is widespread among canneries in each commodity classification (table 9). Such guarantee is of special importance with goods purchased for future delivery, especially if purchases are made for a considerable period prior to the selling season for which they are intended.



The guarantee against decline in price encourages buyers to order with confidence as they will suffer no losses through declines in price. As a result, the danger of excessive cancelation of orders is lessened. Also, the canner is better able to manufacture in quantities more nearly in accordance with consumer demand than would be possible otherwise. But the canner who guarantees against price declines assumes a risk of loss if a price decline occurs. However, this loss may be no greater than that he would have incurred without a future contract; at any rate he has a customer and a sale he might not otherwise have made. Briefly then, such guarantees instill confidence in buyers and so tend to maintain stability in the market and to keep stocks in movement.

Table 9. Associations guaranteeing prices against their own decline, 1938-39 season

	Distribution by commodities -						Percentage of total
	Dairy and poultry	Vegetables	Fruits	Fruits and vegetables	Specialties	Total	
	Number	Number	Number	Number	Number	Number	Percent
Do guarantee	3	2	6	7	7	25	69.4
Do not guarantee	1	5	-	-	3	9	25.0
Seldom guarantee	-	-	1	-	1	2	5.6
Total	4	7	7	7	11	36	100.0

Source: Survey made by the Cooperatives Research and Service Division, 1939-40.

It should be observed that where a price guarantee is given, the seller is not protected in a rising market. The buyer almost always demands delivery and the cooperative feels bound to carry out the terms of the contract. As yet, no satisfactory method has been found to prevent this situation. As the future contract containing a guarantee by the seller against his own decline actually works out, if prices decline, the seller takes the loss; while if prices rise, the buyer gains.

### Price Quotations

Of the 37 canning cooperatives whose records were examined, 89 percent followed the practice of issuing price lists. About half of these associations issued price lists at least as often as price changes occurred, almost a third sent them out monthly, and the others irregularly. Such price lists generally were sent to brokers representing the associations at their several markets. Some associations also issued their lists direct to large buyers or to salesmen representing them at certain markets.

A number of associations also sent brokers bulletins or news letters of a promotional character giving supplementary information on growing conditions, factory methods and facilities, new products, new containers, changes in processing methods, and other news designed to stimulate sales.

About one-fifth of the canneries, generally those of the dairy and poultry group, follow a practice of quoting regional or zone prices. Under this system, the prices are uniform in each region.

### SELLING POLICIES

#### Selling by Sample or Grade

Sale by sample is the most usual practice followed by the associations. About half of the cooperatives sold from 76 percent to 100 percent of their pack by sample (table 10). Only 14 percent made no sales by sample. Of the others, 17 percent sold from 1 percent to 25 percent by sample and an equal percentage sold from 26 percent to 50 percent by sample. Associations packing specialties sold a higher percentage by sample than cooperatives packing staple products.

Table 10. Percentage of pack sold by sample by 29 cooperative canning associations, 1938-39 season

Percentage of pack	Distribution by commodities -						Percentage of total
	Dairy and poultry	Vegetables	Fruits	Fruits and vegetables	Specialties	Total	
	Number	Number	Number	Number	Number	Number	Percent
None	1	-	1	1	1	4	13.8
1 - 25	-	1	2	1	1	5	17.2
26- 50	-	1	1	2	1	5	17.2
51- 75	-	-	-	1	-	1	3.5
76-100	1	4	1	1	7	14	48.3
Total	2	6	5	6	10	29	100.0

Source: Survey made by the Cooperative Research and Service Division, 1939-40

Canners generally supply their brokers without charge with a complete sample line of their products as soon as the new pack becomes available. Brokers have these products on display in their offices for inspection and testing by buyers. They and their salesmen often carry them on their calls on buyers. An effective broker usually insists on maintaining a well-stocked sample room so that samples are always available for prospective buyers.

It is good policy to see that brokers have adequate supplies of samples for their own testing purposes and for use of wholesale buyers. A wholesale grocer may also wish additional samples for his several salesmen to use in calling on retail merchants. Such samples can be a great aid in selling specialty lines or a new item being introduced.

About one-third of the associations make from 76 percent to 100 percent of their sales by grade; one-fourth make no sales by grade (table 11); others sell varying proportions by grade. After a line has been introduced and buyers have become well acquainted with the product, the brands, and the corresponding grades, canners may do much of their selling by brand names.

Table 11. Percentage of pack sold by grade by 27 cooperative canning associations, 1938-39 season

Percentage of pack	Distribution by commodities -						Percentage of total
	Dairy and poultry	Vegetables	Fruits	Fruits and vegetables	Specialties	Total	
	<u>Number</u>	<u>Number</u>	<u>Number</u>	<u>Number</u>	<u>Number</u>	<u>Number</u>	<u>Percent</u>
None	1	3	-	-	3	7	25.9
1 - 25	-	1	2	1	2	6	22.2
26- 50	-	-	-	1	1	2	7.4
51- 75	-	2	-	1	-	3	11.1
76-100	2	1	2	2	2	9	33.4
Total	3	7	4	5	8	27	100.0

Source: Survey made by the Cooperative Research and Service Division, 1939-40.

When United States standards for grades are made the basis of sale, both buyer and seller can speak a common language and need for samples and use of them becomes less necessary. As acceptance of United States standards for grades increases, sale by sample may be expected to decrease, although it may always constitute a desirable method of selling new items of canned foods and specialties.<sup>1/</sup>

#### Terms of Sale

Fifteen of the associations, or 40 percent, made all their sales at prices quoted at point of shipment; four, or 11 percent on a delivered basis (table 12). The others, approximating 50 percent, made

<sup>1/</sup> As of January 1941, grades for 36 canned commodities have been developed by the U. S. Department of Agriculture.



varying proportions of their sales both on an f.o.b. and a delivered basis. In general, the larger associations followed a policy of quoting prices and making sales f.o.b. shipping point, at the factory, warehouse, or dock. Prices usually were quoted subject to seller's confirmation.

Among the associations making all sales on a delivered basis was a milk condensary, a vegetable cooperative, and two canneries packing specialty products. As a general rule, cooperatives prefer not to quote delivered prices because this involves the additional effort of obtaining, checking, and paying transportation costs and has the additional risks of guaranteeing delivery.

Table 12. Basis of sales of 37 cooperative canning associations, 1938-39 season

Percentage of sales	Number of associations making sales -	
	f.o.b	Delivered
None	4	15
1-25	5	9
26-50	2	2
51-75	2	2
76-99	9	5
All	15	4
Total	37	37

Source: Survey made by the Cooperative Research and Service Division, 1939-40.

#### Usual Contract Provisions

Canned food contracts used by the cooperatives specify terms and conditions of sale and delivery that vary greatly. Many cooperatives use official contract forms approved by their respective State or regional canners' association. The provisions of such contract forms usually are printed in detail on the back of the form. These provisions generally include definitions and statements covering terms, shipment and storage, delivery of separable lots, pro rata delivery, swell, guaranty, drawback, nonassignability, claims, arbitration, and may include provisions relating to marine insurance, taxes, and price guarantee.

The advantages of using contract forms that clearly state in detail the provisions over which some question of interpretation or responsibility may arise, are many. They serve to protect both buyer and seller and lessen the possibility of misunderstandings and litigation.

## BRANDS, ADVERTISING, AND SALES-PROMOTION POLICIES

### Use of Brands 8/

Cooperative canneries, almost without exception, sell some portion of their packs under their own brands. They also sell under buyers' brands, usually at the option of the buyer. Naturally, cooperatives prefer to sell under their own brands, so as to stimulate repeat sales and thus lessen selling costs by creating a demand among housewives for goods so packed.

The percentages sold under buyers' brands and under packers' brands varied greatly between associations. Fourteen associations were moving from 26 percent to 50 percent of their packs under buyers' brands, while 10 were so moving more than 50 percent. On the other hand, 13 associations were moving more than 75 percent of their packs under their own brands, and one association made no sales under buyers' brands (table 13). This association was producing a specialty product for which a market had been developed in a nearby city where the bulk of the product was distributed by a chain-store organization. The organization was willing to distribute the product under the packer's brand, as a consumer preference for it had been developed.

Some cooperatives sell under buyers' brands goods identical to those sold under their own. Prices are usually the same, but some 14 percent of the associations obtain higher prices for goods sold under their own brands. Of these, three associations reported price differentials of from 2.6 percent to 5 percent, and two associations a differential of more than 5 percent. These were associations for whose products consumer preferences had been built up as a result of advertising and promotional effort. However, several associations that for years had conducted extensive advertising and promotional campaigns received no price differential for goods sold under the advertised brands.

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8/ Labels generally carry the brand, which is a word, a letter, or a group of words or letters composing a name, a design, or a combination of these which identifies the goods or services of one seller or of a group of sellers and/or distinguishes them from those of competitors. The terms packers', sellers', national and manufacturers' brands generally are used interchangeably by the food industries. Likewise, the terms buyers' private, distributors', and controlled brands are used interchangeably. The first group might better be called manufacturers' brands, and the second distributors' brands.

Table 13. Number of cooperative canneries selling under packer's and buyer's labels and the percentage of their total pack sold under each, 1939-40 season

Percentage sold	Number of associations selling under-	
	Packer's labels	Buyer's labels
None	-	1
1 - 25	5	12
26 - 50	10	14
51 - 75	9	8
76 - 100	13	2
Total	37	37

Source: Survey made by the Cooperative Research and Service Division, 1939-40.

Associations generally market their goods under two or more of their own brands. Three-fourths of the associations were using two or more brands, while about one-half of them used three or more. In addition, most of them were also selling under a variety of buyers' brands.

Variations in packers' brands were used generally to differentiate between quality grades. For example, one brand would be used on all grade A products, a second would be used on all grade B products, and a third on grade C. When used in this manner, wholesale customers could readily identify the quality grades by the brands.

Frequently, associations would have two or more brands for each quality grade. Thus, when the association sold to more than one distributor in a market area, each might be given exclusive rights to a specific brand. This would make possible the distribution of goods of identical quality in the same market, under different brands, at such variations in price as the distributors were able and desired to obtain. Such a system of labeling tends to perpetuate an undesirable retail pricing practice, from the point of view of the consumer. Studies have shown that there frequently is little or no direct relationship between quality and price of canned goods in retail stores.<sup>9/</sup>

This undesirable practice, however, does not apply in the pricing of canned goods by cooperatives to wholesale-grocer and chain-store buyers. The pricing policies of the cooperatives examined in this study were such that price differentials usually were directly related to quality differentials. Where differences in quality existed, the prices quoted reflected the quality differentials. At wholesale, price differentials generally reflected quality differentials. Differences in quality grades generally were indicated by differences in packers' brands.

<sup>9/</sup> Hauck, Chas. W. "A Study of Quality and Retail Prices of Ohio-Packed Vegetables." Ohio State Univ. Bull. 123, 25 pp., 1939. (Mimeographed.)



Controlled or Distributors' Brands. The trend is toward controlled brands or brands that are owned and controlled by distributors. One large chain-store distributor introducing controlled brands for canned fruits and vegetables recently announced its policy with respect to controlled brands. This policy, briefly stated, is "no discrimination against other brands and 'no substitution.'" The chain justifies the use of controlled brands as a policy only when the chain is able to give the consumer equal quality at a saving in price, or better quality at the same price, and still earn a reasonable profit on its sale.<sup>10/</sup> To carry out this policy the chain must have a dependable source of supply that can give it the quality and quantity required at a cost which will enable the chain to render the necessary service to consumers.

Items subject to controlled brands must be of sufficient importance in volume to represent a worth-while saving to consumers and to justify the procurement, labeling, distribution, and other costs involved in the development of the brand. Introducing and popularizing a controlled brand may be done by advertising in the same media that other brand promoters use and employing similar methods of display and retail promotion essential for the successful introduction and use of other brands.

When such a controlled-brand policy can be carried out without using other brands as loss leaders, or giving controlled brands preference in display and using questionable methods of substitution, such a policy may not be objectionable from the standpoint of the canner.

The consumer is confused by the multiplicity of brands; the retailer is also confused and his inventory becomes larger; the wholesaler has much the same problem. The cooperative desires the benefits to be derived from producing a good product that satisfies consumer demand. The product needs brand identification if its sale is to be aggressively promoted. Unless manufacturers and distributors are to be restricted in their identification of products by brands, the resulting wastes of brand competition must be accepted as the price of free competitive effort.

A cooperative association, owned and controlled by its producer members -- the beneficiaries of any successful brand promotion -- may, therefore, assert a prior claim to the right to brand identification on the ground that it is most interested in protecting the integrity of the brand and in holding the best position to insure the qualities necessary to maintain it.

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<sup>10/</sup> Warren, L. A. "Controlled Brands." UNO ANIMO. March 1941.

Fighting Brands. Less than 10 percent of the cooperatives have made use of fighting brands. A fighting brand is a temporary brand introduced frequently as an emergency measure and is generally used defensively to meet price competition. A packer may be undersold in a market by competitors who are taking temporary losses to gain entrance into a market or to strengthen their positions. The packer may decide to meet the price competition without lowering the price on his advertised brand and spoiling the market for it. He may, under such circumstances, introduce a fighting brand of the same or lower quality as his advertised brand and meet the price established by his competitor. Both the advertised brand and the fighting brand may be kept on retailers' shelves at different prices. The packer who is being undersold may feel that the competing product is of lower quality and that, in time, consumers will realize this is the case and switch to the packer's advertised brand. The fighting brand, under these conditions, enables the packer to maintain the quality of goods sold under his best brand and still obtain some of the business available at the lower prices. It also may enable him to avoid having his market captured by a competitor.

#### Advertising by Cooperatives

About half of the cooperatives surveyed were doing some advertising. Cooperative canneries in every commodity classification had made some use of advertising. The dairy and poultry cooperatives and those handling specialties, on the whole, were more active in this field. About 10 percent of the associations were doing little advertising and the others were doing none.

About 45 percent of the associations doing some advertising began during or before 1934. From then until 1939, each year from 1 to 3 associations began advertising until a total of 18 reported that they were engaged in it.

For the year 1938, 13 associations reported their expenditures for advertising (table 14). One reported expenditures in excess of \$100,000; two expenditures of \$40,001 to \$50,000, and one expenditures of from \$30,001 to \$40,000. The rest of the associations reported expenditures of less than \$10,000 each.

Method of Determining Advertising Appropriations. Various methods of determining the advertising appropriations were used. The one most frequently followed was to set aside a percentage of sales. More than one-fourth of the associations followed this procedure. Slightly more than 10 percent of the associations appropriated for advertising a stated number of cents per dozen or per case. Another 10 percent used the blanket appropriation method of creating a fund for advertising.

Table 14. Advertising expenditures reported by 13 cooperative canneries for 1938

Expenditures	Associations advertising	
	Number	Percent
Less than \$500	2	15.4
\$500 - 1,000	1	7.7
1,001 - 5,000	5	38.4
5,001 - 10,000	1	7.7
10,001 - 20,000	-	-
20,001 - 30,000	-	-
30,001 - 40,000	1	7.7
40,001 - 50,000	2	15.4
50,001 - 100,000	-	-
More than 100,000	1	7.7
Total	13	100.0

Source: Survey made by the Cooperative Research and Service Division, 1939-40.

One advantage of basing the advertising appropriation on a unit basis is that variations in the size of the advertising fund will be in proportion to the size of the selling job to be done. In years of large crops and large supplies to be marketed, the advertising fund will be larger than in years of small supplies when there is a lesser selling job to be performed. The method is simple to apply and is readily understood by the members.

To a lesser extent, deriving the advertising fund as a percentage of sales, the fund is kept roughly proportional to the selling job. However, in years of large supply when the job of selling becomes more difficult, prices fall so that the total advertising fund raised by assessment as a percentage of sales is more likely to be less than when it is assessed in cents per dozen or per case.

The use of a blanket appropriation authorized by the directors is not so directly related to the selling job as is desirable and, therefore, is a method more subject to variations based on emotional appeal which cannot always be justified.

Advertising Allowance. The advertising allowance, as generally used by the cooperatives, is a canner's contribution to the joint expense of his customer and himself for point-of-purchase promotion, actual or nominal. Use of the allowance has grown out of the recognition by manufacturers of nationally advertised branded goods that it is worth while to carry the promotion of their brands to the point of purchase; that in some cases a cooperative arrangement is more economical than alternative arrangements; and that to obtain full cooperation, a payment to the dealer for a promotion service actually rendered may be necessary.



About 38 percent of the canning cooperatives studied had made use of the advertising allowance at some time. Its use was definitely checked when the Robinson-Patman Act became effective in 1936. During the 2 or 3 years following passage of the Act, cooperatives resumed the practice of making advertising allowances. The practice of cooperatives in this respect was quite similar to that of private canneries.

Cooperative marketing associations, on the whole, do not as a general practice make advertising allowances. Those that do, regard them as of doubtful value. The practice, according to a survey by the Cooperative Research and Service Division in 1938, was most popular with processing associations that market their products chiefly through grocery stores. It is estimated that since 1929, not more than 5 to 7 percent of the cooperatives' total expenditures for advertising was in the form of advertising allowances. In general, the younger and smaller cooperatives more frequently make use of this device, probably because they are unable to employ so readily other forms of advertising.

Associations making greater use of the advertising allowance generally employ an advertising contract designed to conform with the provisions of the Robinson-Patman Act. The contract of one association contained: (1) Provisions specifying the items to be advertised and featured; (2) a definition of advertising to include newspaper advertisements, window posters, displays, handbills, and other specified services; (3) the compensation and how and when to be paid; (4) requirements of proof of advertising service to be rendered; and (5) inclusion of the clause "Inasmuch as the law provides that no claim for advertising allowances may be made except for advertising services actually rendered, therefore, it is understood and agreed that a presentation of any statement, bill, or invoice for payment by us of the amount herein agreed, shall be considered by us as prima facie claim by you that said amount has been actually expended for the purpose for which it is paid."

The most common method of determining the basis for the advertising allowance was as a percentage of sales. Next in rank was to make the allowance on a unit or case basis. Payment of the allowances by the canning cooperatives generally was made by check for services rendered.

#### Sales Promotion

More than two-thirds of the associations reported engaging in various methods of sales promotion, including point-of-purchase display and advertising material, use of specialty men, demonstrators, and free deals.

It is the job of the sales manager to choose those selling methods which, from the long-run viewpoint, will effect the distribution of his product with the least expenditure of money and effort. The problems are so complex that the choice of selling methods usually has been made on the basis of trial and error, seasoned by experience.

With the exception of three or four associations, the sales promotional work done by cooperative canneries has been quite restricted and experimental. The expenditures have been small and the promotional plans subject to frequent changes and discontinuances. Supplying dealers with recipe folders and display and advertising material for use at the point of purchase has been followed by four associations.

Specialty Salesmen. About one-third of the associations have used specialty salesmen (table 15). Canneries in all commodity classifications report their use. Associations packing specialties have made greater use of special salesmen; 1 association employed from 16 to 20. Each of 11 associations was using from 1 to 5.

Specialty men generally work under the direction of association brokers and frequently have headquarters in their offices. Their principal duties are to call on retailers, put up counter cards, arrange displays, talk up the products of the association they represent, and do some selling.

Specialty salesmen usually work for a salary or for a salary and expenses. Often they are employed for special promotion for a time by one organization and then represent other companies, frequently serving a number of separate ones during the year. As used by the cooperatives, they commonly work in one or two market areas or at most in from three to five. In 1938-39, 1 association reported expenditures of \$15,000 to \$20,000 for this service. Another spent from \$3,000 to \$5,000; one spent from \$1,000 to \$3,000; and three reported expenditures of less than \$1,000 each.

Table 15. Number of cooperative cannery associations using specialty men, 1939-40 season

Use of specialty men	Distribution by commodities -						Percentage of total
	Dairy and poultry	Vegetables	Fruits	Fruits and vegetables	Specialties	Total	
	Number	Number	Number	Number	Number	Number	Percent
Use	3	2	1	1	4	11	29.7
Do not use	1	5	6	6	6	24	64.9
Seldom use	-	-	-	-	2	2	5.4
Total	4	7	7	7	12	37	100.0

Source: Survey made by the Cooperative Research and Service Division, 1939-40.

Demonstrators. About one-third of the canneries surveyed reported making some use of demonstrators (table 16). Associations employing demonstrators were represented in every commodity classification, with the single exception of fruits. Demonstrators were stationed in retail outlets and engaged principally in the introduction of new products. Food conventions, shows, and fairs afforded opportunities, and dealers often insisted that canners engage space, furnish displays, and supply demonstrators. Supermarkets were sometimes supplied with demonstrators on Saturdays or other days when shopping was unusually brisk.

Duties of demonstrators were to provide samples of the product, arrange displays, give recipe booklets to shoppers, talk up the item, and sometimes assist in making sales. Demonstrating is one of the best methods of selling and frequently has an educational value to consumers. It is rather expensive, however, and its use has been restricted. Demonstrators generally were paid a daily wage, which in all cases was paid by the canner. Sometimes the demonstrator was supplied through the broker, who might give general supervision to the work.

Table 16. Number of associations using demonstrators, 1939-40 season

Use of demonstrators	Distribution by commodities -						Per- cent- age of total
	Dairy and poultry	Vege- tables	Fruits	Fruits & vege- tables	Spe- cial- ties	Total	
	Number	Number	Number	Number	Number	Number	Percent
Use	3	3	-	4	3	13	35.1
Do not use	1	4	7	3	7	22	59.5
Occasionally use	-	-	-	-	2	2	5.4
Total	4	7	7	7	12	37	100.0

Source: Survey made by the Cooperative Research and Service Division, 1939-40.

Free Deals. Free deals consist of giving some of the goods "free" when a given quantity is purchased at the regular price, such as 1 case of goods free for each purchase of 10 cases. While this practice is quite general with many canners, only 5 percent of the cooperatives reported its use.

The use of the free deal often results from special sales campaigns of canners who wish to expand sales without reducing price quotations.



In general, therefore, there is need for better sales planning to reach all types of retail grocery outlets. Sales territories need to be developed, wholesale and broker trading areas delineated, and markets examined with a view to their full utilization. A brand policy that permits selling either under packers' brands or distributors' brands is desirable. Although conditions of supply and demand are the governing influences in determining the pricing policies of the more successful cooperatives, too frequently sales managers of cooperatives have refrained from making price changes when conditions fully justified them, until after their competitors had acted and benefited thereby. Members and directors frequently need to be better informed on price-making forces and the desirability of permitting their managements to make prompt changes in prices when conditions warrant.

